Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

Re: Federal-State Joint Board on Universal Service Seeks Comment on Proposals to Modify the Commission's Rules Relating to High-Cost Universal Service Support. Public Notice FCC 05J-1

Reply Comments of the
Public Service Commission of Wisconsin

The Public Service Commission of Wisconsin (PSCW) respectfully submits these Reply Comments in response to the Federal Communications Commission's (FCC) Public Notice FCC 05J-1, in CC Docket No. 96-45, *Federal State Joint Board on Universal Service Seeks Comment on Proposals to Modify the Commission's Rules Relating to High-cost Universal Service Support*, released August 17, 2005 (Public Notice). This Public Notice requested comments on four different universal service fund reform proposals provided by Joint Board members and staff.[1] The proposals address issues that were originally referred by the FCC to the Joint Board by an Order issued in June 2004.[2] The Joint Board also noted that comments were invited "to supplement the

[1] The proposals were attached as four appendices of the August 17, 2005, Public Notice. The full names of the appendices are as follows: (A) The State Allocation Mechanism, A Universal Service Reform Package proposed by joint board member Ray Baum (SAM); (B) Three Stage Package for Universal Service Reform proposed by joint board member Billy Jack Gregg (Three Stage Package); (C) A Holistically Integrated Package submitted by Commissioner Robert Nelson to Federal-State Joint Board on Universal Service (HIP); and (D) Package on Universal Service Reform "Universal Service Endpoint Reform Plan" proposed by Joel Shifman, Peter Bluhm, and Jeff Pursley (USERP). In these Reply Comments, they will be referred to as (A) SAM, (B) Three Stage Package, (C) HIP, and (D) USERP.
[2] *Order*, In the Matter of Federal-State Joint Board on Universal Service, CC Docket No. 96-45, FCC 04-125, Rel. June 28, 2004.

record with respect to any additional issues or facts that have been raised" since the comment period from an earlier Notice in this docket was closed.

The PSCW commends the Joint Board members and staff for launching these four proposals to help stimulate and focus debate on important universal service issues. Comments submitted in this proceeding have ranged widely on issues and the extent of support for the four specific plans in the Public Notice. It is clear from many comments that there is recognition that the universal service support system needs reform. Evidence has been presented on the decline in national wireline penetration and the growth in the size of the federal universal service fund. Many commenters have also noted the need for a very broad examination of how the rural universal support mechanisms need to mesh with non-rural support programs and with other changes taking place in the telecommunications industry.

The PSCW supports the concept of a more inclusive look at all aspects of universal service. The PSCW believes that to be effective and purposeful, universal service support – particularly high-cost universal service support – needs to be structured so that it actually supports and promotes affordable service in high-cost areas. To accomplish that, the program has to focus on actual costs, on affordability, on meeting needs in geographic areas regardless of the serving company, and on meeting the goal of ensuring the comparability of rural and urban rates.

In these Reply Comments, we address these issues in the context of the comments already filed by other parties and with respect to the four plans distributed by the Joint Board. The Joint Board, the FCC, state regulators, and the telecommunications industry have a large task ahead—to reform the universal service system so that it meets its intended purposes in a manner that is administratively feasible, appropriately targeted, and compatible with the changing marketplace for telecommunications throughout the nation.

Executive Summary

1. The FCC should decide to undertake a broader review of universal service fund (USF) reform in order to develop a unified approach and to specifically address:

    a. Concerns raised by the courts in the *Qwest I* and *Qwest II* remands.[3]
    b. Support mechanisms for non-rural companies operating in rural areas.
    c. Requirements for Eligible Telecommunications Carriers (ETC) designation and USF portability.
    d. Contribution mechanisms.
    e. Potential impacts resulting from intercarrier compensation (ICC) reform.

    USF reform must address affordability and comparability of rural and urban telephone rates. As the costs of the universal service system support have increased, the base of revenues over which contributions are assessed, has decreased. This indicates that ETC designations and contribution mechanisms need review. Reform of intercarrier compensation will exacerbate the pressures on the universal service system—potentially endangering the sustainability of the universal service fund.

    All these issues need to be addressed in the context of a unified approach to reforming the federal system of universal service support. Many of the features in the four proposals address these pressing issues more comprehensively. The PSCW encourages the Joint Board to move forward on these issues.

2. USF reform should:

    a. Place greater reliance on embedded costs and less reliance on forward-looking economic cost (FLEC) models for purposes of universal service support.

    FLEC models are the least accurate method of estimating costs for areas that are most likely to need high cost support. FLEC models are highly subjective, costly to develop and use, and cannot capture the variability in costs for specific localized conditions (e.g,. terrain factors such as bedrock, high water tables, soil types, etc.). Embedded costs, rather than FLEC models, coupled with accountability measures, will provide a

[3] Qwest Corp. v. FCC, 258 F.3d 1191, 1201 (10th Cir. 2001) (*Qwest I*), *Qwest Communications v. FCC*, 398 F.3d 1222, 1234 (10th Cir. 2005) (*Qwest II*)

greater degree of accuracy upon which adequate and efficient support payments can be determined.

b. Maintain the current definition of "rural company" yet address related issues.[4]

The solution to the problem is not to change the definition of "rural company," but rather to permit non-rural companies the ability to receive support if they serve high cost rural areas. Moreover, denying support to high cost companies based on previous non-rural company ownership needs to be corrected.

c. Maintain multiple study areas within a state. That is to say, do not combine study areas or use statewide cost averaging for rural companies.

Averaging inappropriately masks cost variability and denies some high cost companies support unless state USF funds make up the difference. Federal universal service support should be sufficient to prevent large disparities in the need for additional support either implicitly from specific companies or explicitly from individual state universal service funds.

d. Incorporate these plan features:

i. State allocation mechanism: The PSCW sees merit in the concept of a state allocation mechanism which would allow support of the end-user rates in relation to median household income. A mechanism is needed to evaluate whether the resulting rates meet the affordability, reasonability and comparability requirements of the Telecommunications Act of 1996 (Act). However, the PSCW does not support the concept of a state allocation mechanism if it is simply a mechanism that forces state commissions to fund additional wireless ETCs through state universal service funds.

[4] *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 F.C.C.R. 8776, 8943-8944, para. 310 (1997). Referring to 47 C.F.R. § 51.5, the FCC defined a rural telephone company as a local exchange carrier operating entity to the extent the entity:

(1) Provides common carrier service to any local exchange study area that does not include either:

(i) Any incorporated place of 10,000 inhabitants or more, or any part thereof, based on the most recently available population statistics of the Bureau of the Census; or

(ii) Any territory, incorporated or unincorporated, included in an urbanized area, as defined by the Bureau of the Census as of August 10, 1993;

(2) Provides telephone exchange service, including exchange access, to fewer than 50,000 access lines;

(3) Provides telephone exchange service to any local exchange study area with fewer than 100,000 access lines; or

(4) has less than 15 percent of its access lines in communities of more than 50,000 on February 8, 1996.

ii. ETC Designation and Amount of USF Support for ETCs: In today's complex telecommunications network, there is a need for a comprehensive redesign of the current universal service support systems to handle multiple ETCs for any designated area while still maintaining a sustainable universal service fund.

iii. Contribution Mechanisms: Contribution mechanisms should give consideration to low-volume users so assessments do not unfairly burden those users relative to other users. Rules should clearly address how providers calculate federal universal service fund assessable revenues when interstate toll service is sold as part of a package or bundle with services not subject to federal USF assessment. Finally, the base of assessable services and revenues need to be expanded to include newer technologies that rely on the public switched network.

Reply Comments

1. The FCC should decide to undertake a broader review of USF reform in order to develop a unified approach and to specifically address:

a. **Concerns raised by the courts in the *Qwest I* and *Qwest II* remands.**[5]
b. **Support mechanisms for non-rural companies operating in rural areas.**
c. **Requirements for Eligible Telecommunications Carriers (ETC) designation and portability.**
d. **Contribution mechanisms.**
e. **Potential impacts resulting from intercarrier compensation (ICC) reform.**

There are many issues facing the current system of universal service support that need to be addressed. In particular, in March 2005, the FCC's rules for universal service support were remanded again by the courts. The concerns of the courts which were raised in *Qwest I* and *Qwest II* decisions need to be addressed. The FCC has been directed to develop a "complete plan for universal service."[6] Such a plan must address affordability and comparability of rural and urban telephone rates. The existing patchwork approach to universal service support has resulted in inequitable differences in the amount of support provided for rural geographic areas in the territories of non-rural

[5] Qwest Corp. v. FCC, 258 F.3d 1191, 1201 (10th Cir. 2001) (*Qwest I*), *Qwest Communications v. FCC*, 398 F.3d 1222, 1234 (10th Cir. 2005) (*Qwest II*)
[6] Comments of SBC Communications Inc., September 30, 2005, (SBC) at 2.

companies compared to that provided for the rural geographic areas of rural companies. In addition, the size of the federal high cost universal service fund has increased from $1.2 billion in 1996 to $3.7 billion in 2005.[7] Meanwhile, as the costs of the universal service system support have increased, the base of revenues over which contributions are assessed has decreased.

Many believe the support provided to competitive ETCs is the cause of the escalating size of the fund and seek reform of the portability rules. This indicates that ETC designations and contribution mechanisms should be part of a broad review of USF reform.

The FCC is also currently engaged in reforming intercarrier compensation, potentially unifying the rates for carrier access as compared to local reciprocal compensation rates. However, there is concern as to where local exchange carriers will be able to recover costs if the revenue from access charges is greatly reduced. Reform of intercarrier compensation will exacerbate the pressures on the universal service system—by increasing demand for funding and further eroding the assessment base—potentially endangering the sustainability of the universal service fund.

Many of the features in the four proposals on which comment have been sought address these pressing issues. It is encouraging to see proposals that do not address these issues on a piecemeal basis, but look at the issues comprehensively. All these issues need to be addressed in the context of a unified approach to reforming the federal system of universal service support and the PSCW encourages the Joint Board to move forward on these issues.

[7] Comments of the New Jersey Division of the Ratepayer Advocate, September 30, 2005, (NJ Advocate) at 10-11.

2.a. Place greater reliance on embedded costs and less reliance on forward-looking economic cost (FLEC) models for purposes of universal service support.

The PSCW notes that all the Joint Board proposals call for, or allow for, the use of some form of embedded costs. In general, most rural and some non-rural ILECs[8] agree that some form of embedded costs is a more efficient and effective means of developing costs at least for rural companies. However, generally the comments of wireless carriers and other net payers into the universal service system oppose the use of embedded costs and argue that forward-looking economic cost models should serve as the basis for support.[9] FCC Commissioners Martin and Adelstein voice their concerns about using FLEC models to determine support for rural carriers in their Statements attached to the Public Notice. The PSCW supports placing greater reliance on embedded costs and less reliance on forward-looking cost models.

There are merits to the use of forward-looking economic costs in appropriate circumstances. However, in determining and providing universal service support, the PSCW believes that embedded cost methods, that adequately fund high cost areas and provide for accountability, should take precedent over theoretical cost methods developed for use in the absence of effective competition.

The extent of subjectivity involved in using the FLEC models makes them ill-suited for purposes of determining universal service support. FLEC models are the least accurate for areas that are the most likely to need support. Many comments refer to the extensive investigation by the Rural Task Force (RTF) in 2000 regarding the

[8] See Comments of Verizon, Inc., September 30, 2005, (Verizon) at 13; BellSouth Comments, September 30, 2005, (BellSouth) at 7.
[9] Comments of CTIA-The Wireless Association on Joint Board High Cost Proposals, September 30, 2005, (CTIA) at 4; Comments of the New Jersey Division of the Ratepayer Advocate, September 30, 2005, (NJ Advocate) at 23.

limitations of FLEC model's ability to estimate the costs of rural carriers. As explained by ACS,[10] the RTF compared the FCC's Synthesis FLEC model results for 23 rural test centers to actual costs in those test centers, and the models' results differed on both the high-ends and low-ends and by significant amounts (ACS at 12). ACS rebuts the SAM assertion that if a model is applied on a statewide basis that the errors will cancel out. ACS explains that the errors are not random but have a systemic bias that understates the costs in rural areas (ACS at 13). From the PSCW experience, models simply cannot capture the variability in costs for specific localized conditions.[11] Large variability of costs is due to various terrain factors such as high bedrock, high water tables, various soil types, climate conditions, etc., not easily captured in models. In order to accurately support high cost areas, it is very important to use sources of data that capture this variability.

As noted by Verizon, FLEC models are costly to develop, costly to maintain, and are highly subjective. While extensive efforts went into developing inputs for non-rural carriers in the FCC's Synthesis model, at a minimum the same amount of time would be needed to develop inputs for rural carriers and the results would still be of questionable accuracy (Verizon at 13). FLEC models are not a cost effective approach to the problem, especially where there are other sources of data which can better serve the purpose of determining universal service support for high cost areas.

[10] Comments of ACS of Alaska, Inc., ACS of Fairbanks, Inc. and ACS of Anchorage, Inc. to the Federal State Joint Board on Universal Service, September 30, 2005 (ACS).

[11] While many comments provide excellent explanations about this limitation of FLEC models, the comments from ACS closely mirror the experience of the PSCW, particularly that "facially credible testimony from opposing witnesses supported the use of inputs that produced loop costs ranging from roughly $5.00 to $25.00" (ACS at 14). The PSCW experience was similar—a range of unbundled loop costs in the medium cost zone of $5.63 to $22.60 arose from FLEC models based on "facially credible" testimony in PSCW Docket 6720-TI-187.

Criticism was raised in comments that relying on embedded costs does not encourage efficient investments (CTIA at 4). However, the "best in class" cost adjustment mechanisms, as described in the USERP and HIP proposals, provide other means of addressing the concern that only efficient investment is supported. Further, mechanisms that provide portability of support to competitive local exchange carriers will provide additional feedback mechanisms as to whether the levels of support are reasonable in a competitive environment. The PSCW submits that embedded costs, rather than FLEC models, coupled with accountability measures, will provide a greater degree of accuracy upon which adequate, efficient support payments can be determined.

2.b. Maintain the current definition of "rural company" yet address related issues.

Whether or not to change the definition of a rural company is a particularly difficult question on which to provide comments because it presupposes a solution instead of requesting comments on a factor that is relevant to the determination of USF support. The underlying issue is the need to determine an appropriate area over which costs can be averaged to properly determine universal service support.

Any time costs are averaged, higher costs are averaged with lower costs and some of the variability in the costs is masked. For practical administrative purposes, some area needs to be selected to determine support. The definitions of rural and non-rural companies have served as the basis for establishing the areas over which costs are averaged. Support has not been provided to the rural areas of large companies (called non-rural companies) due to the averaging of costs on a statewide basis. Unequal amounts of support have been provided to rural companies (small companies) by averaging costs on a study area basis. Study areas, however, are simply the service territory of a company frozen at a particular time, even though sales or exchanges of territories have occurred since the "freeze" date. These seemingly arbitrary averaging methods have created a "parent trap" where consumers of equally rural high cost areas have been denied support based on the identity of prior utilities that have provided service in that area. Ultimately, more comprehensive reform is needed to address the lack of support for rural areas of large, non-rural companies.

2.c. Maintain multiple study areas within a state; that is, do not combine study areas or use statewide cost averaging for rural companies.

Two of the Joint Board proposals apply statewide averaging of costs. Statewide averaging of costs will impose an excessive burden on companies to create implicit support for high cost areas or impose an excessive internal burden upon some state commissions to convert such implicit support to explicit support through state-specific universal service funds. The PSCW has consistently opposed the statewide averaging of costs, *i.e.*, the method the FCC adopted for non-rural carriers, and has sought support for geographically rural areas within states and large companies, as have many other large and small utilities (see NCTA at 3).[12] The PSCW specifically addressed this concern in its support of the Wyoming Public Service Commission's request that the FCC reconsider its *Non-Rural High-Cost Universal Service Fund Order, the Ninth Report and Order and Eighteenth order on Reconsideration in CC Docket 96-45* (Ninth Order) as follows:

> The Ninth Order provides no federal USF support to states that have statewide average cost of providing the supported services [for non-rural companies] of less than $32.18 per line (135 percent of the national average [forward-looking] cost of $23.84). Only seven states receive federal USF support under this methodology. Other states, even those with the same statewide average costs, will require vastly different levels of USF support that must be provided by state mechanisms. The

[12] National Telecommunications Cooperative Association Initial Comments, September 30, 2005 (NCTA).

> amount of USF support that will be needed depends on the characteristics of the particular state. States that are primarily urban will not need to develop a large state mechanism and will not need federal support, because they will have few rural areas to support. States with substantial high-cost areas in addition to urban areas will need larger state USF support mechanisms and thus will require larger state USF assessments. States that are primarily rural with no significant urban areas will receive most of the necessary USF support from the federal USF mechanism. The fact that the need for USF support can vary depending on the characteristics of the territories in a state can be seen through an example. A state that has half of its access lines located in areas with a cost of $10.00 per month and half of its access lines located in areas with costs of $50.00 per month will have the same statewide average cost of $30.00 as a state that has all of its access lines located in areas with a uniform cost of $30.00. The former state has a large need for universal service support, while the latter state has no need for universal service support.
>
> …
>
> There is a concern that if some states have high state universal service assessments and some states have little or no state universal service assessment, this may result in businesses choosing not to locate in those high-assessment states. Telecommunications services are critical to the information economy. These services are most critical to the high-growth, better-paying professions. Any state should be concerned about remaining competitive relative to the variety and prices of telecommunications services available in that state. To the extent that universal service assessments result in higher prices, investments may not be made in the affected states. It is untenable for some states to have a level of universal service assessments that deters business and individuals from locating in that state.
>
> A significant disparity from state to state in universal service assessments will distort the very mechanisms by which the market will select efficient investments in telecommunications infrastructure. [Explicit] universal service support is necessary because former monopoly markets have now been opened to competition nationwide. A federal USF program should provide sufficient funding to prevent large disparities in universal service assessments from state to state.[13]

The FCC eventually did develop a supplemental support mechanism following the Ninth Order by which state commissions could petition the FCC for greater support. However, the FCC's current supplemental support mechanism is both time consuming and lacks predictability as to whether additional support would be forthcoming or not.

[13] Comments of the Public Service Commission of Wisconsin in Support of Wyoming Public Service Commission's Request for Reconsideration, March 2, 2000.

The PSCW believes that a federal USF program should provide sufficient funding to prevent large disparities in universal service assessments from state-to-state or large disparities in the need to provide implicit support from company-to-company. Preventing large disparities is necessary for assessments to be equitable from state-to-state and company-to-company. Requiring a company to provide implicit support is nothing other than a form of an additional required contribution from that company to the system of universal service support.[14] The contributions from differing companies are required to be equitable and non-discriminatory.

Two other Joint Board plans provide different proposals for the area over which costs can be averaged. The USERP proposal provides additional federal support to reduce the potential internal burden that might be imposed upon states if state-wide average costs were the sole basis for support. It would allow states to be divided into three zones and would provide support based on the average cost in each zone, thus segregating the high-cost areas within states and providing support for those areas. Unless another better means is proposed for providing support to the geographically rural areas of non-rural providers, the PSCW supports such an approach in the context of more comprehensive universal service reform.

The PSCW prefers the USERP mechanism to that in the Three Stage Package. The Three Stage Package expands the current mechanism for non-rural carriers to more companies and leaves fewer carriers on the current rural mechanism by combining companies in holding company systems. This Three Stage Proposal expands the current

[14] 47 U.S.C. § 254(d) requires all carriers to be subject to equitable, nondiscriminatory contributions. The principles of 47 U.S.C. § 254(b)(4) requires all providers to make equitable and nondiscriminatory contributions to universal service.

problem instead of addressing it by treating more companies the way it currently treats non-rural companies.

The PSCW is very concerned that universal service reform provides support for high-cost areas within states and companies. The universal service system will not provide sufficient funds unless it also addresses the need to provide funding for such areas and companies. Contribution assessments would not be equitable and non-discriminatory unless funding were provided for high-cost areas within states and companies.

2.d. Reform of the USF Should Incorporate These Plan Features:

i. **State Allocation Mechanism**
ii. **ETC Designation and USF Portability**
iii. **Contribution Mechanisms**

2.d.i. State Allocation Mechanism: The PSCW sees merit in the concept of a state allocation mechanism which would allow support of the end-user rates in relation to median household income. A mechanism is needed to evaluate whether the resulting rates meet the affordability, reasonability and comparability requirements of the Act. However, the PSCW does not support the concept of a state allocation mechanism if it is simply a mechanism that forces state commissions to fund additional wireless Eligible Telecommunications Carriers (ETCs) through state universal service funds.

Most comments evaluate the state allocation mechanism as a method by which state commissions redirect universal service support between companies. Similar to a block grant approach, state commissions would allocate to eligible companies an overall amount of support provided from the FCC to each state. Many comments point out that such a mechanism provides an added layer of administrative cost and could tax the limited resources of state commissions. Comments also express concern that strict federal guidelines would also be necessary so all utilities are treated fairly and in a non-discriminatory manner by their state commissions. (Among others, see CTIA at 13; NTCA at 7; SBC at 8; Verizon at 10.)

However, the state allocation mechanism also provides a consolidation of multiple support systems that would comprehensively evaluate whether the levels of support provided by the FCC are sufficient to meet the requirements of 47 U.S.C. § 254 (§ 254). The PSCW believes some form of comprehensive evaluation will ultimately be needed to legally implement § 254. Some mechanism is needed to judge the overall affordability and rate reasonability and comparability between urban and rural areas.

A mechanism, like the state allocation mechanism, could function in a manner similar to Wisconsin's High Rate Assistance Credits.[15] Once provided with an overall sum of dollars, the PSCW could distribute those funds, or a portion thereof, in a manner that keeps rates below a certain percentage of median household income. Under the Wisconsin High Rate Assistance Credit program, the identity of the provider of a consumer's service does not matter. The program directly addresses the rates that companies charge to consumers. It provides increasing credits to the extent prices exceed percentages of median household income. Like employer supported health maintenance programs, small differences in prices can provide incentives for consumers to seek low-cost, efficient providers. Companies have many methods that can be used to keep their local rates competitive, such as the sale of optional, high-margin services and the use of their networks to provide multiple products. A high-rate assistance credit provides a market mechanism to encourage companies to explore all means of keeping rates reasonable.

[15] Wis. Admin. Code PSC § 160.09.

Notwithstanding its support of the concept, the PSCW is concerned that a state allocation mechanism may be used to shift the responsibility to fund additional wireless ETCs onto state commissions. For example, the HIP proposal states, "State A could distribute SAM funds to ETCs, in accordance with FCC guidelines, but may determine that more than one carrier could be funded in a given rural area, while State B could determine that only one carrier could be funded in a similar area."

State commissions have been given the responsibility to administer the following federal statute without the benefit of specific guidance or direction on how to interpret and apply these provisions:

> (e) PROVISION OF UNIVERSAL SERVICE
> (1) ELIGIBLE TELECOMMUNICATIONS CARRIERS—A common carrier designated as an eligible telecommunications carrier under paragraph (2) or (3) shall be eligible to receive universal service support in accordance with section 254 and shall throughout the service area for the designation is received—
> (A) offer the services that are supported by the Federal universal service support mechanism under section 254(c), either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier); and
> (B) advertise the availability of such services and charges thereof using media of general distribution.
> (2) DESIGNATION OF ELIGIBLE TELECOMMUNICATIONS CARRIERS—A State commission shall upon its own motion or upon request designate a common carrier that meets the requirements of paragraph (1) as an eligible telecommunications carrier for a service area designated by the State commission. Upon request and consistent with the public interest, convenience, and necessity, the State commission may, in the case of an area served by a rural telephone company, and shall, in the case of all other areas, designate more than one common carrier for a service area designated by the State commission, so long as each additional requesting carrier meets the requirements of paragraph (1).[16]

Given the language of the statute, the PSCW questions the amount of discretion it has to deny support to an otherwise qualified ETC applicant even though another

[16] 47 U.S.C. § 214(e)

provider may also hold ETC designation in the same area. It is not realistic to expect a state commission to pick and choose which ETC to fund among a pool of otherwise qualified ETCs, and still be in compliance with federal law.

The PSCW shares the concern of other parties who commented that the size of the federal universal service fund has significantly grown and that newly designated ETCs are a major contributor to that growth. A quick fix solution such as denying support to wireless ETCs is not the answer. To do so, would not be competitively neutral and would not likely comply with the law. Rather, carefully defining some of the terms of the statute such as “public interest,” “throughout the service territory,” “services that are supported by the federal universal service support mechanism,” and “using it own facilities or a combination” would give much needed direction to state commissions to determine who should get support, for what purpose and how much support should be given, all things considered. Any such rules should be competitively neutral, avoid cost shifting among providers and not provide duplicative support of network facilities, while advancing other public policy goals (e.g., affordable rates, broadband deployment in rural areas, etc.). Once developed, rules should then be applied consistently by each state commission.

2.d.ii. <u>ETC Designation and Amount of USF Support for ETCs</u>: In today’s complex telecommunications network, there is a need for a comprehensive redesign of the current universal service support systems to handle multiple ETCs for any designated area while still maintaining a sustainable universal service fund.

To develop mandatory rules for state commissions to follow will necessarily require a thorough examination of the underlying issues. It is an understatement to say that the telecommunications industry is complex. Multiple, interconnecting providers, using different technologies, private or leased networks, and unique serving arrangements, all contribute to this complexity. Understanding these complexities, along with how interconnection and the designation of financial responsibility impact traffic and revenue flows, is necessary to redesign a universal service support systems for these multiple providers that accomplishes the objective or goals mentioned above, while controlling the size of the fund. Therefore, the PSCW recommends that further proceedings be conducted to thoroughly investigate and develop specific rules for state commissions to implement the federal statute.

2.d.iii. <u>Contribution Mechanisms</u>: Contribution mechanisms should give consideration to low-volume users so assessments do not unfairly burden those users relative to other users. Rules should clearly address how providers calculate federal USF assessable revenues when interstate toll service is sold as part of a package or bundle with services not subject to federal USF assessment. Finally, the base of assessable services and revenues needs to be expanded to include newer technologies that rely on the public switched network.

The PSCW cannot help but note that this request for comments also generated close to 195,000 one- and two-page comments opposing a possible connections-based contribution mechanism as included in the HIP proposal. When the contribution mechanism is addressed, consideration should be given to low-volume users so an assessment does not unfairly burden those users relative to other users. Further, as more and more services are sold in packages, it is becoming increasingly difficult to separate long distance revenues subject to assessment and local revenues which are not. This needs to be addressed.

Additionally, as expressed in the PSCW's reply comments in CC Docket No. 01-92, the PSCW agrees with proposition in the National Association of Regulatory Utility Commissioners Version 7 intercarrier compensation reform proposal that the base over which universal service funds are collected should be expanded to include new technologies. The differing treatment of USF assessment between broadband telephony over DSL versus broadband telephony over cable modem should be reconciled. If some form of connections-based contribution mechanism is considered, connections could be weighted based on the relative differences in prices consumers are willing to pay for differing types of connections. There are many issues that need to be considered to revise the contribution mechanism.

Conclusion

In these comments the PSCW provides general comments about USF reform. The PSCW submits that the FCC should place greater reliance on embedded costs and less reliance on FLEC models for purposes of universal service support; maintain the current definition of "rural company" yet address related issues; and maintain multiple study areas within a state; *i.e.*, do not combine study areas or use statewide cost averaging for rural companies. The PSCW has the following comments concerning specific features of plans: The PSCW submits that a mechanism like a state allocation mechanism is needed to evaluate whether the resulting end-user rates meet the affordability, reasonability and comparability requirements of the § 254. Further proceedings should be conducted to thoroughly investigate and develop specific rules for state commissions to apply in the designation of ETCs and determinations of amounts of support. Finally, contribution mechanisms should be expanded to include newer technologies that rely on the Public Switched Telephone Network while not unfairly burdening low-volume users in the process.

The PSCW appreciates the opportunity to provide these comments to further the efforts to evaluate the underlying root causes for the escalating size of the universal service support system; and the decreasing effectiveness of that system; and to address compliance with the requirements the universal service requirements of § 254. Such efforts are particularly urgent as technological change is also driving a need to reform intercarrier compensation.

Dated at Madison, Wisconsin, _____October 27, 2005_____

By the Commission:

/s/ *Christy L. Zehner*

Christy L. Zehner
Secretary to the Commission

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